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COMMITTEE ON ENERGY AND COMMERCE

2125 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6115

MAJORITY (202) 225-2927
FACSIMILE (202) 225-2525
MINORITY (202) 225-3641

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MEMORANDUM

October 20, 2009

To: Members and Staff of the Subcommittee on Oversight and Investigations

Fr: Majority Staff, Committee on Energy and Commerce

Re: Supplemental Information Regarding the Small Business Health Insurance Market

On Tuesday, October 20, 2009, at 1:00 p.m. in room 2123 of the Rayburn House Office Building, the Subcommittee on Oversight and Investigations will hold a hearing on the small business health insurance market. This memorandum provides additional information from the Committee's investigation into the practices of small business health insurers.

EXECUTIVE SUMMARY

In August 2009, the Committee initiated an investigation into business practices in the small business health insurance market, including private insurers' practice of setting premium rates on the basis of claims experience, health status, age, sex, and the number of employees. As part of the investigation, the Committee sent document requests to six leading health insurance companies that sell policies in the small business market: Aetna, UnitedHealth Group, WellPoint, Humana, Wellmark, and Medica. The document requests sought information about how the companies set premium rates for small businesses and about some of their largest premium rate increases in recent years. The Committee obtained thousands of pages of documents, interviewed insurance company officials responsible for overseeing the rate-setting process, and interviewed numerous small business owners who had purchased small group health policies.

The information received during the investigation reveals:

- **Small business health insurance can become more expensive, sometimes unaffordably so, when covered individuals get sick.** In the vast majority of states, insurance companies are permitted to consider the health conditions and claims

experience of covered individuals when setting premium rates. Large rate increases can occur when a single small business employee (or dependent of an employee) becomes ill. For example, in the year after Bruce Hetrick's wife received \$300,000 in care for cancer, his small business's premiums jumped 28%. His wife died before the renewal became final, and he asked his insurer to re-rate the policy without his wife. The premium increases dropped to 10%.

- **Insurance companies discriminate in premium pricing on the basis of age and sex, making older employees and women more expensive to insure and to hire.** For example, one insurer that sells small business policies in Florida charges 143% more to cover a 23-year-old woman than a man of the same age and health profile. The same insurer charges 396% more for a 60-year-old man than a 24-year-old man.
- **The small group insurance market punishes small business for being small.** Insurance companies explicitly take the size of the business into account in setting premium rates, assigning premium surcharges to the smallest firms and engaging in more aggressive medical underwriting of those customers. The largest premium increases reported to the Committee involved businesses with ten or fewer employees. For instance, when insurance enrollment at a small home construction company in Missouri dropped from 11 to 3 employees, its premiums jumped 148%.
- **Annual rate increases can be large.** Double-digit annual increases are commonplace. Four of the six insurance companies reported some annual rate increases of over 100%. Two insurers reported one or more annual rate increases of over 200%.
- **Small business premiums are highly volatile, which hampers small businesses' ability to budget and expand.** Premium rate increases can vary widely from year to year and are driven by factors over which small businesses have no control, such as the health, age, and sex of those covered on their health insurance policies.

I. BACKGROUND

Small businesses are essential to innovation and job creation, and they are, in many respects, the engine of the nation's economy. Companies with fewer than 20 employees accounted for a quarter of the nation's job growth from 1992 through 2005.¹ In 2006, 96% of all U.S. firms had fewer than 50 employees, and these firms accounted for 28% of private sector employment.²

Yet, small businesses are significantly disadvantaged in comparison to large employers when purchasing private health insurance. Among the challenges facing small businesses that seek to provide health insurance are minimal bargaining power, fewer choices in insurers and plans, and higher insurance premiums stemming from greater per-employee administrative costs,

¹ Executive Office of the President, Council of Economic Advisers, *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*, at 1 (July 2009).

² *Id.*, at 3

higher broker fees, and underwriting that allows for high premiums for sicker and older employees.³ As a result, small businesses pay on average about 18% more than large employers for the same level of coverage.⁴

Health insurance costs for small businesses have been rising rapidly. The average annual cost of a family premium for employer-sponsored health coverage in a small firm was \$12,696 in 2009, an increase of 30% since 2004 and 123% since 1999.⁵ During the past decade, median family income grew only 29%.⁶ Small businesses can experience steep and unpredictable annual premium increases, which create significant challenges for budgeting and complicate plans for expansion. In a 2009 survey, 15% of small businesses reported being offered renewal premium rate increases of over 20% for the same plan they had held the year before.⁷

Escalating costs have inhibited small businesses' ability to offer health insurance to their employees. Nearly all employers with 1,000 or more employees offer health coverage to their employees,⁸ but only 35.6% of businesses with fewer than 10 employees offered health insurance in 2008, a decline of 10.1% since 2000.⁹ Most small firms not offering health coverage cite cost as the "most important reason" for their inability to offer it.¹⁰

Due to lower offer rates by employers and higher employee costs in the small group market, employees in small firms are more likely to be uninsured than those at large firms. In 2007, nearly a third of nonelderly employees in firms with fewer than 25 employees were uninsured, compared to 10% of nonelderly employees in large firms.¹¹ The situation is even

³ *Id.*, at 1.

⁴ Jon Gabel et al., *Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down*, Health Affairs (May/June 2006).

⁵ Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits – Annual Survey 2009*, at 15-16, 18 (Sept. 2009) (online at <http://ehbs.kff.org/pdf/2009/7936.pdf>).

⁶ The Commonwealth Fund, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help*, at 10 (Sept. 2009).

⁷ The Main Street Alliance, *Direct from Main Street: Small Business Views on Health Care and Health Reform*, at 2 (Aug. 2009).

⁸ Department of Health and Human Services, Agency for Healthcare Research and Quality, *Medical Expenditure Panel Survey – Insurance Component* (online at http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2008/tia2.pdf).

⁹ *Id.*

¹⁰ The Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits: 2008 Annual Survey*, at 35 (Sept. 2008).

¹¹ Executive Office of the President, Council of Economic Advisers, *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*, at 5 (July 2009).

worse for low-income employees in small businesses: only 16% of small business employees who earn under \$15 per hour have coverage through their employer.¹²

Health care costs are taking an increasing toll on small business employees. Since 1999, average employee contributions for small firms have more than doubled from \$286 per year to \$625 per year for single coverage and from \$1,831 to \$4,204 for family coverage.¹³ Deductibles are higher for employees in small firms, with 40% of small firm employees facing deductibles of \$1,000 or more, while only 13% of large firm employees pay similar amounts.¹⁴ The percentage of small firm employees paying such substantial deductibles has increased dramatically in the past few years: only 16% had deductibles of \$1,000 or more in 2006.¹⁵ This trend is likely accelerating as a result of the economic downturn. In a recent survey, 23% of small firms reported reducing employee benefits and 22% reported increasing employees' share of premium payments as a result of the downturn.¹⁶

Experts predict that the situation will worsen for small firms and their employees. Without reform of the small business health insurance market, small businesses will pay nearly \$2.4 trillion in healthcare costs over the next ten years; they will lose \$52.1 billion in profits; and their employees will lose \$834 billion in wages. By 2018, yearly small business job losses due to healthcare costs will total 178,000, and yearly small business healthcare expenditures will reach \$339 billion.¹⁷

II. DISPARATE AND LIMITED REGULATION

Regulation of small group health insurance is disparate and, for some small businesses, all but nonexistent. For businesses with 51 to 100 employees, little regulation exists. For groups of 2 to 50, federal law offers some protection with regard to access to and continuity of coverage. The Health Insurance Portability and Accountability Act (HIPAA) requires insurers to offer their small group policies on a guaranteed-issue basis and to guarantee the renewal of those policies.¹⁸ Insurers may, however, discontinue a particular plan if they do so for all plan participants.¹⁹ In

¹² The Commonwealth Fund, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help*, at 3 (Sept. 2009).

¹³ Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits – Annual Survey 2009*, at 84 (Sept. 2009) (online at <http://ehbs.kff.org/pdf/2009/7936.pdf>).

¹⁴ *Id.*, at 103-104.

¹⁵ *Id.*, at 114.

¹⁶ *Id.*, at 224.

¹⁷ Small Business Majority, *The Economic Impact of Healthcare Reform on Small Business*, at 1-2, 7-9 (June 2009).

¹⁸ 42 U.S.C. §§ 300gg-11(a), 300gg-12(a).

¹⁹ *Id.* at § 300-gg-12(c)(1).

addition, HIPAA places no limits on the rate increases that may be charged for small business insurance.

In response to rising prices and volatility in small business health insurance premiums, most states have enacted some form of rating limitations, but the protection they offer to consumers varies widely. These regulations fall into three categories:

- *No Regulation*: Three states and the District of Columbia place no limitations on rating practices in the small group market.²⁰
- *Rate Bands*: Thirty-five states place some limit on the variation in premiums among small business policyholders on the basis of health conditions or medical claims alone, and they restrict premium increases attributable to such considerations in a given year.²¹ A smaller number of states place similar limitations on premium increases due to the size of the business or the age of its employees, and a handful of states prohibit the consideration of business size or gender at all in setting premium rates.²² These limitations can be quite permissive. For instance, rating rules in some states allow a price differential of 26 to 1 for the same policy.²³
- *Community Rating*: Twelve states have enacted community rating regimes that prohibit insurers' consideration of a particular small business's claims experience or its employees' health status in setting that business's premium rates.²⁴ Instead, insurers in these states consider the claims experience of every group purchasing a particular policy and set premium rates on a policy-wide basis.²⁵ Most of these states do permit insurers to consider the age of the individuals on a policy in determining premiums, but they set limits on the premium variation based on age.²⁶

III. THE COMMITTEE'S INVESTIGATION OF SMALL GROUP RATING PRACTICES

On August 31, 2009, the Committee sent letters to six health insurance companies, including the four companies with the largest nationwide market share of small group health

²⁰ See *Small Group Health Insurance Market Rate Restrictions, 2009*, Henry J. Kaiser Family Foundation (hereinafter, "Small Group Rate Restrictions"), (online at <http://www.statehealthfacts.org/comparetable.jsp?cat=7&ind=351>).

²¹ *Id.*; Mila Kofman and Karen Pollitz, Georgetown University Health Policy Institute, *Health Insurance Regulation by States and the Federal Government: A Review of Current Approaches and Proposals for Change*, at 3 (Apr. 2006).

²² Kofman *et al.*, at 3.

²³ *Id.*

²⁴ Small Group Rate Restrictions; Kofman *et al.*, at 3.

²⁵ Kofman *et al.*, at 3.

²⁶ *Id.*

insurance policies. The letters requested information on the companies' policies with regard to premium rate setting in the small group market and data on the highest increases offered by each company on its three most popular small business health insurance plans.²⁷ The Committee also sought documents that would explain how each company arrived at the premium rate offered to customers receiving 60 of the highest increases on each company's three most popular plans between 2007 and 2009.²⁸ Committee staff reviewed materials submitted in response to those letter requests and interviewed insurance company officials knowledgeable about premium rate setting policies. Committee staff also interviewed numerous small business owners about their experiences in the small group health insurance market.

IV. HOW INSURANCE COMPANIES SET SMALL GROUP PREMIUM RATES

In setting premiums for small business health insurance, the insurers that provided information to the Committee all employed similar procedures. The companies consider both characteristics of small groups as a whole and characteristics of the particular small group being priced in setting a premium rate. Virtually all of the companies reported that they adjust premiums based on health status, claims experience, age, sex, the size of the business, and the industry in which it operates. For the smallest businesses, most insurers stated that their internal rating procedures permitted varying rates on these grounds to the maximum extent permitted by law.

A. The Base Rate

The starting point for a small business premium rate is the "base rate," which insurers establish by looking at trends in healthcare costs and utilization across all of the small groups in a particular geographic region, generally a state. Insurance companies appear to set these rates on either a yearly or quarterly basis. The increase in a premium at renewal attributable to rising healthcare expenses across the insurer's small group book of business is called the "trend." In recent years, small businesses in many parts of the country have seen double-digit increases based on trend alone, before any group-specific increases are taken into account.²⁹

B. Group-Specific Factors

Once the insurance company has arrived at a base rate for small businesses in a particular area, it establishes premiums for the insured businesses in that area by reference to facts specific to each small business and its employees. While variations in state law affect an insurer's ability

²⁷ Letter from Rep. Henry A. Waxman, Chairman, House Energy and Commerce Committee, and Rep. Bart Stupak, Chairman, Subcommittee on Oversight and Investigations, to insurance companies (Aug. 31, 2009).

²⁸ *Id.*

²⁹ Committee Staff Interview, Insurance Company Official (Oct. 16, 2009) (reporting that the Northeast region has seen 10-15% increases in trend annually in recent years); Business Renewal Explanations, XXXXXX, XXXXXX (showing double-digit increases in trend in Florida for all of the last four years and double-digit increases in Utah in two of the last three years).

to consider some characteristics in some states, in most instances insurers take the following group characteristics into account:

1. *Health Status and Claims Experience*

When a small business applies for health insurance, insurance companies typically seek information about the medical histories of the individuals to be covered by that policy. Insurers gather health-related information through a variety of means, including health questionnaires, phone calls to the individuals, and in some instances, reference to commercial databases that allow companies to search the prescription drug history of any potential insured.³⁰ The company assigns a value to each condition reported by an applicant or suggested by his or her symptoms or drug history, and based on the total value accumulated by the group, the company adjusts the small business's premium to account for its perceived "risk." At renewal, the insurance company will consider whether information gained over the course of the year suggests that a modification of the small business's risk profile is warranted and will adjust premium rates accordingly.³¹

Medical underwriting is more extensive for the smallest businesses. For instance, several companies reported using longer form applications for groups of 2 to 10 or 2 to 50.³² One insurance company reported that it is more likely to search the prescription drug history of individuals in groups of 2 to 10.³³

The costs associated with investigating applicants' health histories can have a significant impact on the price of small business health insurance. Medical underwriting has a sizeable effect on the high initial-offer premiums and annual increases charged to small businesses because any "risk" discovered by insurers during this process must be spread across a very small number of people. When a single person on a small group policy becomes ill, that illness can cause an unexpected jump in rates for everyone on the policy. For these reasons, medical

³⁰ Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

³¹ Some companies report using a formulaic risk-assessment model, assigning pre-determined values and leaving underwriters and sales agents little or no room to modify the risk level predicted by the total value accumulated by the group. Other companies allow underwriters or sales agents latitude to alter totals based on their personal assessment of the risk suggested by the group's reported medical history or based on personal knowledge of factors not reported by the group. Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009). At least one company directs its underwriters to conduct their own "medical" research using "tools at [their] disposal" including "WebMD, Google, etc." Insurance Company Underwriting Manual, at XXXXXX.

³² Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009); Insurance Company Underwriting Guidelines, at XXXXXX; Insurance Company Underwriting Compliance Manual, 2009, at XXXXXX.

³³ Committee Staff Interview, Insurance Company Executive, Oct. 16, 2009.

underwriting is a primary cause of marked volatility in premium rates in this market.³⁴ It also contributes to the extremely high administrative costs borne by small business health insurance policyholders,³⁵ which for example, may be as high as 27% for groups of two.³⁶

Medical underwriting can also lock a small business into a contract with a particular company. State limitations on increases in premiums based on health status or claims experience alone—where they exist—only apply when customers are renewing their policies. If a small business experiences an increase in perceived risk that drives up premium prices on its current contract to the limit allowed by law, the premium rates offered by competing insurance companies will often be even higher, as those companies would not be bound by the annual premium increase limit.³⁷

2. Age

Premium rates in all but one state (New York) vary based on the age of the individuals covered on a small business health insurance policy. Some states place a limit on the degree of variation allowed, but many do not, and the resulting differences can be stark. Documents produced by one insurer, for instance, show that in 2008, premiums for a 60-year-old Florida man would be 396% higher than those for a 24-year-old man in the same area for the same health insurance policy, not taking into account the medical risk profile of each man.³⁸ Consequently, in a very small firm, the replacement of only one young employee with one older employee can significantly increase the small business's premium rates.³⁹

3. Sex

A handful of states prohibit consideration of sex in pricing premiums, but most states allow it. Those that do allow it generally place no restrictions on the impact it can have on premium rates. As a result, in most of the country, small businesses that employ women pay more for their health insurance than those which employ only men. The differences can be significant. For example, the price charged by one insurer to cover a 23-year-old woman in Florida would be 143% higher than the same coverage for a man of the same age, location, and health risk profile.⁴⁰

³⁴ Rick Curtis et al., *Health Insurance Reform in the Small-Group Market*, Health Affairs, at 152 (May/Jun. 1999).

³⁵ *Id.*

³⁶ Congressional Budget Office, *CBO's Health Insurance Simulation Model: A Technical Description*, at 9 (Oct. 2007).

³⁷ *Id.* at 156.

³⁸ See Medical Rate Tables, at XXXXXX (Dec. 18, 2007).

³⁹ Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

⁴⁰ See Medical Rate Tables, at XXXXXX (Dec. 18, 2007).

4. Size of the Small Business

Predicting the future medical costs of a group with a small number of employees is a difficult and not particularly reliable exercise. Thus, all the insurance companies interviewed by Committee staff reported adding a surcharge to premiums on the very smallest businesses, where permitted.⁴¹ Discriminatory pricing based on group size might explain why the largest premium increases reported were generally imposed on the smallest businesses, those with ten or fewer employees.⁴²

5. Industry

Some states bar consideration of the industry in which a small business operates in setting its premium rates, but several companies reported in interviews that they took industry into account where permitted to do so by state law.⁴³ This consideration persists even though, as described by one company's underwriting manual, much of the correlation between industry and risk is "conjecture and generalization."⁴⁴

C. A Final Rate

After the base rate and allowable group-specific factors are calculated, insurance companies add administrative costs, target profits, agent commissions, and taxes to arrive at a final premium rate. Some insurance companies reported allowing underwriters or sales agents to adjust these rates on a case-by-case basis. In some instances, insurers may also set a cap on the total premium increase that would be offered to a small business in a single year. Most insurers, however, reported little or no discretion to adjust rates for customers with 50 or fewer employees, as well as no cap on how high the resulting premium increase could go.⁴⁵

V. THE MAGNITUDE OF SOME PREMIUM INCREASES

The Committee's requests to the six insurers sought information on the highest rate increases offered on each company's three most popular small group plans. The information provided by the companies shows that double-digit annual increases are not uncommon and much higher increases are possible.

One company reported that it increased the premium rate for an Arizona small business by 286% in 2008. Of the 60 highest premium increases reported by this company from 2007 to 2009, 19 were over 100% and 3 were over 200%. Another company reported that it increased

⁴¹ Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

⁴² Five of six insurance companies surveyed by the Committee reported that most of their highest rate increases in recent years for their three most popular small group plans were quoted to firms with ten or fewer employees.

⁴³ Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

⁴⁴ Insurance Company Underwriting Manual at XXXXXX.

⁴⁵ Committee Staff Interviews, Insurance Company Officials (Oct. 14 to Oct. 16, 2009).

the premiums for a Kentucky small business by 232% in 2008. Of the 60 highest premium increases reported by this company, 24 were over 100% and 2 were over 200%. A third company reported that it raised annual premiums for a Texas small business by 135% in 2007. Of the 60 highest premium increases reported by this company, 9 were over 100%.

Examples of large rate increases included the following:

- In January 2008, an insurance company offered a 232% premium rate increase to an engineering services company in Kentucky. The number of employees on the plan had dropped from eight to one. This steep increase in premium rates stemmed from the change in group size, and to a lesser degree, a change in the risk profile of the remaining member on the policy.⁴⁶ The company rejected the offer.⁴⁷
- In 2009, an insurance company offered a small technology firm in Georgia renewal of its current HMO insurance policy at a 214% increase in premiums.⁴⁸ The company's renewal offer increase resulted from a 65% change in the "demographic factor" because more older or female employees were employed; a 15% change in the "size factor" because the group got smaller; and a 39% change in the "group experience factor" because the health of those covered on the policy declined.⁴⁹
- In 2009, a three-person company in Iowa saw premiums on its health insurance policy jump 158% in a single year.⁵⁰ The previous year, the firm had covered five people, four with employee-only policies and one with a family policy. At renewal, the company dropped to three employee-only policies covering men aged 27, 32, and 57.⁵¹ The change in roster on the policy resulted in an 80% change in the demographic factor for the business, and the illness of one or more of the remaining employees led to a "risk level" increase of 12%.⁵²
- In April 2009, an insurance company offered a 148% premium rate increase to small business involved in home construction in Missouri.⁵³ The plan included a \$2,000 deductible for individuals and a \$4,000 deductible for families, with a \$6,000 limit on

⁴⁶ Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

⁴⁷ *Id.*

⁴⁸ Response from Insurance Company to Staff, House Committee and Commerce, at XXXXXX, (Oct. 13, 2009).

⁴⁹ Changes in Rating Factors, at XXXXXX (2009).

⁵⁰ Renewal Change Rate Detail, at XXXXXX (Mar. 26, 2009).

⁵¹ Renewal Detailed Census, at XXXXXX (Mar. 26, 2009).

⁵² Renewal Change Rate Detail, at XXXXXX (Mar. 26, 2009).

⁵³ Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

out-of-pocket costs for a family.⁵⁴ In 2008, the business had 11 employees on its health insurance policy, but only 3 remained on the policy at the time of renewal.⁵⁵ This large decrease in the number of covered individuals and the less favorable demographic make-up of those who remained—they were older or more likely to be female—led the insurance company to raise the group’s premium rates.⁵⁶ The business rejected the offer.⁵⁷

- In 2008, an Iowa small business saw a 141% increase in premiums due almost entirely to a change in the demographic make-up of the firm.⁵⁸ In the previous year, the company’s health insurance policy covered three employees, one with coverage for the employee and his or her spouse and two with coverage for their spouses and children. Upon renewal, only two employees remained on the policy: a 43-year-old man with three dependents and a 62-year-old woman who covered only herself.⁵⁹ Medical claims on the policy had decreased for the year.⁶⁰ Nonetheless, the group received a sharp increase in premiums due to a 117% change in its demographic factor.⁶¹
- In 2007, a two-person business in South Dakota received a renewal offer that included a 103% increase in premiums.⁶² In the previous year, the business bought coverage for two families, but in 2007 it reduced the number of lives covered to just two employees at the firm—a 60-year-old man and a 61-year-old woman.⁶³ This change in the sex and/or age of those covered on the policy led to a 75% increase in the group’s demographic factor, and a change in the health condition of those covered led to a 13% increase in the risk ascribed to the group.⁶⁴

VI. CASE STUDIES

As part of the Committee’s investigation, staff interviewed individual small business owners who had faced hardships maintaining health insurance coverage. With the permission of the business owners, the Committee also obtained documents relating to their health insurance

⁵⁴ Renewal Offer Letter, at XXXXXX (Feb. 25, 2009).

⁵⁵ Change in Census, at XXXXXX (Apr. 1, 2009).

⁵⁶ Response from Insurance Company, to Staff, House Committee on Energy and Commerce, at XXXXXX, (Sept. 24, 2009).

⁵⁷ *Id.*

⁵⁸ Renewal Rate Change Detail, at XXXXXX (Aug. 30, 2009).

⁵⁹ Renewal Detailed Census, at XXXXXX (Aug. 30, 2009).

⁶⁰ Renewal Claims Experience, at XXXXXX (Aug. 30, 2009).

⁶¹ Renewal Rate Change Detail, at XXXXXX (Aug. 30, 2009).

⁶² Renewal Rate Change Detail, at XXXXXX (Mar. 17, 2007).

⁶³ Renewal Detailed Census, at XXXXXX (Mar. 17, 2007).

⁶⁴ Renewal Rate Change Detail, at XXXXXX (Mar. 17, 2007).

policies from their health insurers. These case studies illustrate the problems encountered by many small business owners in obtaining and retaining health insurance coverage.

A. Hetrick Communications – Indianapolis, IN

Bruce Hetrick owns a small advertising and public relations firm in Indianapolis, Indiana, with 15 employees. The firm pays for 80% of health insurance premiums for employees and 50% for dependents. Mr. Hetrick's wife was an employee of the company covered by the group policy. In 2003, his wife was diagnosed with oral cancer. The cancer metastasized to both lungs in 2004, and she passed away on March 5, 2005. During the final year of his late wife's life, her health insurance costs totaled more than \$300,000 for her cancer treatment.

In January 2005, when the policy came up for renewal, the firm was quoted a 28% increase in health premium costs.⁶⁵ After his wife passed away, in March 2005, Mr. Hetrick requested a re-quote. WellPoint sent a re-quote with a health premium increase of only 10%.⁶⁶

B. Affinity Gallery – Louisville, KY

Patricia Reilling operated an art gallery in Louisville, Kentucky, and obtained small business coverage from Anthem BlueCross and BlueShield (WellPoint) through the Kentucky Retail Federation in 1990. From 1994 to 2009, she worked as a design and art consultant with no other employees. For each of these 15 years, Ms. Reilling's one-person group policy was renewed annually by WellPoint.⁶⁷

In March 2008, Ms. Reilling was diagnosed with breast cancer. She had a bilateral mastectomy in April 2008. During her multiple subsequent reconstructive surgeries, she contracted a severe MRSA infection and required two emergency surgeries in January 2009. Ms. Reilling's medical expenses in 2008 far exceeded those of any prior year under her WellPoint plan.

In April 2009, WellPoint initiated an audit of Ms. Reilling to confirm her eligibility for the policy in force.⁶⁸ WellPoint then terminated her policy as of July 1, 2009. When the company terminated Ms. Reilling's policy, it offered her the opportunity to purchase an individual policy. However, Ms. Reilling could not afford the quoted premium, which was more

⁶⁵ *Id.* Estimated Monthly Employee Benefit Premium Options, at WLP-HEC-4-00000230, 247.

⁶⁶ 2005 WellPoint Re-Quote Summary provided to Committee staff by Bruce Hetrick.

⁶⁷ Testimony of Patricia Reilling, before the House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Terminations of Health Policies by Insurance Companies: State Perspectives and Legislative Solutions* (July 27, 2009).

⁶⁸ Letter from Anthem Blue Cross and Blue Shield to Affinity Gallery, Inc. (Apr. 21, 2009).

than double her prior rate.⁶⁹ Ms. Reilling appealed the decision to WellPoint's senior management, but the appeal was denied.⁷⁰ Ms. Reilling testified at the Subcommittee's field hearing in New Albany, Indiana, on July 27, 2009.

C. Bi-State Muffler & Brake Inc. – Davenport, Iowa

Mick Landauer owns Bi-State Muffler & Brake Inc., which includes two muffler shops in Iowa and Illinois. The business has 11 employees, 9 of whom are on the group plan. Health insurance costs for the firm have been steadily rising in recent years. In addition to paying a significant portion of the total premiums, the company pays for half of the employees' annual deductible.

Mr. Landauer was born with congenital heart disease that has required him to receive expensive medical care in recent years. Wellmark quoted a 42% increase for renewing the same plan in 2009.⁷¹ The rate increase was due in large part to the Mr. Landauer's claims experience, which is reflected in the "risk level" used by Wellmark to calculate the renewal premium rate.⁷²

Instead of accepting this increase, Mr. Landauer chose a less generous plan that resulted in a 25% premium increase and significant increases in deductibles and out-of-pocket expenses.⁷³ In order to keep insurance costs from continuing to rise for his employees, Mr. Landauer is considering removing himself from the company policy in 2010.

D. St. Petersburg Glass and Mirror – St. Petersburg, Florida

Fred Walker owns St. Petersburg Glass and Mirror in St. Petersburg, Florida. The company provides health insurance to three of its four employees (the fourth is on Medicare). The monthly premiums total \$1,253.93, half of which is paid by the company. Because of the impact of the economic downturn on his business, Mr. Walker was considering dropping health insurance for all of his employees in early 2009. However, before he could make that decision, one of his employees discovered she had breast cancer. Because she would not have access to insurance if he canceled the group plan, Mr. Walker decided to renew the coverage for another year. As a result, the employee was covered for her cancer treatments. This year, UnitedHealth proposed a 14.5% premium increase.⁷⁴ Rather than accept the premium increase, Mr. Walker

⁶⁹ Letter from Kim Ellis, Regional Vice President of Underwriting, Anthem to Patricia Reilling (July 1, 2009).

⁷⁰ Letter from Deb Moessner, President & General Manager, Anthem Blue Cross and Blue Shield, to Patricia Reilling (July 13, 2009).

⁷¹ Notice of Renewal Rates, at WMK009103 (Dec. 17, 2009).

⁷² Renewal Rate Change Detail, at WMK009104 (Dec. 17, 2008).

⁷³ Alliance Select Copayment Plans – Renewal Alternates, at WMK009099 (March 16, 2009).

⁷⁴ Business Renewal Explanations, at UHG_EC3_001729; Renewal Offer (Apr. 1, 2009), at UHG_C3_001704.

chose a less generous plan that almost tripled the total out-of-pocket maximums for in-network care to \$6,000 for an individual and \$18,000 for a family.⁷⁵

VII. CONCLUSION

A patchwork of ineffective state regulations leaves small businesses vulnerable to large and unpredictable rate increases when employees get sick. Insurers also discriminate in rate-setting based upon group size, sex, and gender. Small changes in the demographic composition or health status of a small firm's employees can result in large rate hikes that can exceed 100% and even 200% in a single year.

⁷⁵ Review of Medical Coverage and Rates (Apr. 1, 2009), at UHG_EC3_1708; UnitedHealthCare Insurance Company Group Policy for St. Petersburg Glass and Mirror (Apr. 1, 2009), at UHG_EC3_1424.